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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

In the Matter of:

Federal-State Joint Board on
Universal Service

CC Docket No. 96-45

REPLY COMMENTS OF PAGEMART, INC.

PageMart, Inc. ("PageMart"), by its attorneys, hereby submits the following reply comments in response to comments filed in the above-referenced docket concerning the Federal-State Joint Board's Recommended Decision^{1/} on the implementation of the universal service directives set forth in Section 254 of the Telecommunications Act of 1996.^{2/}

The Recommended Decision prompted commentary from a remarkable number of parties both within and without the telecommunications industry: local exchange carriers (competitive and incumbent), interexchange carriers, CMRS providers, cable companies, information service providers, educational and health care concerns, and other public interest groups. Although there remain large differences of opinion among the parties, several clear strands of consensus emerged.

PageMart stands by the positions set forth in its initial comments on the Recommended Decision. To reiterate, the Commission should clarify that Section 332(c)(3)^{3/}

^{1/} Federal State Joint Board Recommended Decision on Universal Service, CC Docket No. 96-45 (released Nov. 8, 1996) (the "Recommended Decision").

^{2/} 47 U.S.C. § 151 et seq.

^{3/} 47 U.S.C. § 332(c)(3).

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precludes states from requiring CMRS carriers to contribute to state support mechanisms at this time. In addition, the Commission should pay careful attention to the way in which implementation of the universal service directives could impact carriers with lower profit margins and affect the competitiveness of the entire telecommunications industry. Bearing in mind the potential for such economic distortions, the Commission should: (1) seek to minimize the overall size of the universal service fund ("USF"); (2) assess contributions to the fund based on interstate and intrastate revenues; and (3) assess contributions based on a forward-looking economic formula that takes into account the potential for carriers to recover subsidies from the fund. The record in this proceeding provides substantial support for these basic premises.

I. UNIVERSAL SERVICE SUPPORT SHOULD BE CAREFULLY TARGETED AND NARROWLY DRAWN.

PageMart strongly supports the goals of universal service. However, it joins numerous other commenters in urging the Commission to exercise caution in determining which services will be supported by USF subsidies, and to what extent they will be supported. Once granted, such support would be very difficult to withdraw. Beneficiaries come to rely on a different pricing structure and develop their plans accordingly, and it would require enormous political will to disturb this reliance.^{4/}

A larger universal service umbrella also would create greater incentives for entities to redirect activity into the subsidized sectors, increasing the need for USF funding.^{5/}

^{4/} See, e.g., Comments of Citizens Utilities Company at 4-8.

^{5/} As an illustration of these concerns, Vanguard Cellular Systems proposes
(continued...)

The bulk of this obligation would fall on consumers of telecommunications services. Eventually, a large enough burden would likely lead to a drop in consumer demand for telecommunications services, shrinking the size of the base that provides the USF revenue. This effort would be likely to occur more quickly in competitive industries such as the paging industry, where profit margins are narrow and demand is very elastic.^{5/} An onerous USF burden would have a disproportionate impact on such industries and a potentially detrimental effect on the growth of new technologies.

PageMart supports the position of numerous parties in this proceeding that questioned different aspects of the proposed discounts to schools and libraries.^{7/} In particular, many parties questioned the methodology for arriving at the proposed \$2.25 billion annual cap on school and library funding and suggested the cap be lowered.^{8/}

Even greater concern was expressed regarding the issue of proposed USF support for internal wiring and connections in schools and libraries. As explained in PageMart's comments, and in almost every other comment filed in this docket, inside wiring is not subject to Section 254(h)(1)(B) of the 1996 Act because such wiring is a telecommunications facility and not a service. Moreover, the provision of such facilities is

^{5/} (...continued)

random audits to ensure that support for schools and libraries is being used appropriately. See Comments of Vanguard at 7-8.

^{6/} See Comments of Paging Network, Inc. ("PageNet") at 3.

^{7/} For example, MFS suggests that the FCC provide service directly to schools, rather than using any discounts. Comments of MFS at 19-20. See also Comments of Airtouch Communications, Inc. ("Airtouch") at 18-21.

^{8/} See Comments of Bell Atlantic at 21; Comments of Citizens for a Sound Economy Foundation at 11-13. Several parties also suggested that the federal test for school lunch funding be replaced by more accurate determinants of economic need, such as census data.

not economically reasonable as required by Section 254(h)(2)(A).^{9/} Significantly, even the New York State Education Department does not support universal service fund subsidies for inside wiring.^{10/} PageMart urges the Commission to consider carefully these comments and the extent of support that will be provided for schools and libraries; the proposed discounts would have a significant impact on the size of the universal service fund, with a correspondingly detrimental impact on the overall cost of providing telecommunications services.

PageMart also joins many other parties in standing by its proposition that the Commission limit support from the USF to a single line for a primary residence and disputes the contention that such a limitation would be difficult to administer. It is inconceivable that any administrative difficulties would warrant subsidizing the provision of multiple lines, a benefit that would go far beyond the universal service mandate to connect the greatest number of residences to the telephone system. PageMart also doubts the necessity to provide support for business lines, particularly when such costs are already deductible under the Internal Revenue Code.^{11/} PageMart urges the Commission to reject this approach.

Finally, PageMart joins numerous parties which suggested that carriers be required to disclose the amount of their universal service assessment as a separate line item charge on bills to customers. Such a mechanism would be in keeping with Section 254's

^{9/} GTE Service Corporation suggests that inclusion of such costs should require a more explicit Congressional mandate. Comments of GTE at 89-96.

^{10/} See Comments of New York State Education Department at 7.

^{11/} See Comments of Ameritech ("Ameritech") at 4-7; Comments of Association for Local Telecommunications Services at 5-6. See also Comments of Airtouch at 21-22.

mandate that the Commission establish "specific, predictable and sufficient mechanisms"^{12/} for the advancement of universal service. In addition, an explicit pass-through of the surcharge would serve the goals of "competitive neutrality" by mitigating the impact of the surcharge upon carriers, such as messaging carriers, whose consumer demand is less elastic.

II. CONTRIBUTIONS TO THE FEDERAL FUND SHOULD BE BASED ON INTERSTATE REVENUES AND INTRASTATE REVENUES.

Comments in the record provide strong support for the proposition that federal USF contributions should be assessed on as broad a base as possible, and that this base should include both inter- and intrastate revenues.^{13/} In particular, several commenting parties questioned the rationale for assessing contributions to support education and library discounts on an inter- and intrastate basis, while not using the same basis in assessing contributions to support high-cost areas.^{14/}

The Commission must address clearly these jurisdictional issues. As stated in its comments, PageMart supports the use of both inter- and intrastate revenues as a contribution base. Such a base would ensure that the largest possible group of carriers contribute to the fund, spreading the burden more equitably. Moreover, as inter- and

^{12/} 47 U.S.C. § 254(d).

^{13/} See Comments of BellSouth at 9-11; Comments of Competition Policy Institute at 6-14; Comments of Competitive Telecommunications Institute at 6-8; Comments of MCI at 10-11; Comments of National Cable Television Association, Inc. at 28-30.

^{14/} See Comments of U.S. West at 16. As U.S. West points out, several provisions of the 1996 Act and the Recommended Decision demonstrate Congressional support for the use of both inter- and intrastate revenues as a contribution base. *Id.* at 17-18.

intrastate carriers enter the market for provision of each others' services, the distinction between the two types of carriers will become more arbitrary. Self-reporting of the source of revenues hardly seems reliable, and would provide incentives for manipulation and circumvention of obligations. Indeed, a likely result is that carriers deemed to be providing only interstate service would bear the brunt of these questionable incentives and would be forced to shoulder a disproportionate burden of the USF funding. Inclusion of both categories of revenues in calculating USF contributions would be both easier to administer and more equitable.

III. CONTRIBUTIONS TO THE USF SHOULD BE BASED UPON FORWARD-LOOKING ECONOMIC COSTS AND ASSESSED IN AN EQUITABLE MANNER.

PageMart reiterates its support for the Joint Board's proposal to use forward-looking economic costs in the proxy model. This proposition prompted conflicting commentary from different segments of the telecommunications market. PageMart urges the Commission to adopt the Joint Board's recommendation and to avoid using embedded costs in calculating contributions to the USF. As PageMart and many other commenters have pointed out, the use of embedded costs is a methodology that includes many unnecessary costs incurred under rate of return regulation and would both increase the size of the fund and allow recipients of universal service to overestimate the costs of these services.^{15/}

In addition, PageMart stands by its support of the Joint Board's decision to base contributions on gross telecommunications revenues net of payments to other carriers.

^{15/} See Comments of the Ad Hoc Telecommunications Users Committee at 6-8; Comments of AT&T at 13.

At the same time, PageMart urges the Commission to consider seriously the inequity inherent in assessing contributions from carriers (including paging providers) that do not have the capability to provide all of the services encompassed by the definition of universal support and, thus, cannot be beneficiaries of the USF.^{16/} In particular, to avoid a situation in which paging carriers are unduly disadvantaged by being forced to pay contributions into a fund from which they cannot benefit, the Commission should establish a contribution level for paging carriers that is 50% of the total gross telecommunications revenues that are subject to the contribution formula.

IV. CONCLUSION

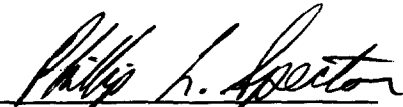
PageMart stands with the majority of commenting parties in support of a universal service mechanism that will ensure access to affordable telecommunications

^{16/} See Comments of the Personal Telecommunications Association (Paging and Narrowband PCS Alliance) at 3-6; Comments of Arch Telecommunications Group, Inc. at 3-6.

services in a manner that enhances, rather than distorts, competition. PageMart respectfully urges the Commission to ensure that implementation of the universal service mechanism is effected in a manner consistent with the concept of "competitive neutrality."

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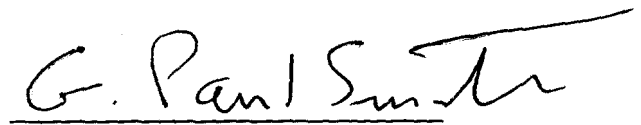
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